Management
Board
of Cabinet

OPS Management
Series

Internal Auditing

Its Expanded Role From a Manager's Perspective

Please note that this brochure is general in nature, providing information rather than specific policy and direction.

Introduction

In May 1980, Management Board commissioned the Task Force on Audit Policy to review the role of internal audit in the Ontario Government. The following December, the recommendations of that task force were endorsed by Management Board and Cabinet.

Those recommendations call for the scope of internal auditing in each ministry to be comprehensive in nature. Management Board sees this move as a positive step toward better value for money and accountability.

This brochure is a non-technical summary of the basic concepts of internal auditing detailed in the task force report. Its purpose is to promote understanding of the expanded role of internal audit by line managers and other government employees whose skills exclude auditing.

A more detailed description of an internal audit process for ministeries is being provided in booklet form. Since it outlines standards, it will assist senior management in structuring and evaluating an internal audit process. Line managers seeking more detailed knowledge of this management process and how to use it should refer to this other booklet.

Internal

What is the Expanded Role?

Comprehensive in nature
The scope of internal audit in each ministry is to be comprehensive in nature. It is called "comprehensive" because it goes beyond the traditional financial audit process to include the auditing of both financial and management controls, including data required for Management by Results (M.B.R.) reporting.

Bearing in mind that controls in general keep a ministry on course, the term **management controls** refers to those controls concerned essentially with value for money and accountability. **Financial controls,** on the other hand, focus on the safeguarding of assets and the provision of essential financial information.

Systems oriented
An auditor's purpose is to assure management that existing control processes are working well or, alternatively, to identify weaknesses in certain areas so that corrective action can be taken. To fulfill this purpose adequately, an auditor must evaluate total systems and present the findings in a form the managers can use.

At the risk of oversimplification, an auditor might be likened to a person examining a railroad track who notices at one point the tracks are out of alignment. At another point, the warning signals don't work. Further along there is a soft shoulder. Traditionally, an auditor would single out these faults for correction.

However, an auditor using the recommended systems-oriented approach would go beyond simply listing the faults. The auditor would determine if the faults were isolated cases in an otherwise satisfactory system or if they indicated that the system was in dire need of overall improvement. The auditor would then report to management that either the system is reliable except for isolated cases or that, unless improvement is made to the overall system, there could well be a train wreck!

Advisory
In this way, the auditor becomes a key advisor to the management team who helps to assure management that its control processes are reliable. This does not mean that auditors will take over the roles of a manager. Managers develop, implement and maintain their control processes. Auditors will assist managers as constructive, helpful partners.

Most ministry audit groups have for some time recognized the need to go beyond the traditional financial audit process. Consequently, although the recommendations of the Task Force on Audit Policy, December, 1980, provide for all ministries to adopt an expanded auditing mandate, many have already been working towards this goal.

Auditing

Limits on Internal Auditing

Distinct from Program Evaluation

Program evaluation and internal auditing are frequently mistaken for each other. Both have received considerable attention in recent years and both are evaluation functions.

Internal auditing focuses on the evaluation of management controls within any given program. Program evaluation is a different and separate function which considers the effectiveness of the existing program to determine, in the light of present circumstances, its adequacy, relevance and the alternatives available.

In other words, a program evaluator basically questions if a program is still needed. An internal auditor, on the other hand, accepts the validity of the program and reports to managers on whether or not they have adequate control over it.

Distinct from Management

Internal auditing is not meant to second-guess management nor is it a "witch-hunt" to find errors. Rather, it is meant to be a positive management tool which managers can use to help ensure the success of their programs.

An auditor's role is distinct from that of a manager. The auditor's responsibility is to help managers maintain direction so that what they want to happen does in fact occur. To do this, an auditor concentrates on the control systems which keep programs on track.

To illustrate this point further, it is management's responsibility to operate programs efficiently and economically. Hence, management develops, implements and maintains the necessary control systems such as, systems for measuring productivity or for reporting progress against plans. Auditors aid managers by evaluating control systems and reporting on whether they work well.

Why the Expanded Role has been Adopted

There is growing public concern that government provide maximum public benefit and value for tax dollars. This concern is illustrated by frequent references in the media to apparent instances of wasteful management. At the legislative level, public interest has been reflected in The Audit Act 1977. This new Act gives the Provincial Auditor authority to report on instances where expenditures of money were made without due regard to economy and efficiency or where procedures to measure or report on the effectiveness of programs were either not established or were deemed unsatisfactory.

Also, for many years, Cabinet has had in place a policy of restraining the growth of government expenditure. The main purpose of this restraint is "to reduce the burden of government on the economy and so free resources for more productive use in the private sector". Such restraint also focuses attention on getting the best value for money. Thus, managers are faced with the need to fund new initiatives from within limited total resources or, simply stated, to achieve more with less.

The Benefits of Internal Auditing

An effective internal audit program provides a number of benefits to the ministry. The most important, of course, is timely advice to management when weaknesses are found in any of the control processes. Based on this advice, management is able to take corrective action quickly.

Another important benefit is that audit can provide management with feedback on the functioning of their financial and management policies. Audit can identify opportunities for improving such policies and can promote understanding of them by those being audited.

Perhaps the greatest advantage of the expanded auditing role will be felt by large decentralized ministries where authority is necessarily delegated. In these situations sound accountability and control systems are critical. Therefore, assurances from the audit group on the state of these systems is particularly essential.

Responsibility of Managers

Managers are encouraged to use auditors as sources of this type of advice on control matters. They are also expected to participate in the auditing process itself. For example, managers who help auditors to plan an audit program for the ministry and to determine what should be audited will find auditing a valuable and dependable management aid.

Implementing the Expanded Role

The Task Force on Audit Policy established that internal auditing is primarily a ministry responsibility. However, in concert with other central agencies, the Management Board Secretariat will provide support and consultation and will periodically review progress with ministries.

The Task Force recommended that the implementation of the expanded internal audit program should be evolutionary in nature. The program should build on existing resources, structures and skills as much as possible.

Finally, while the implementation of the expanded role will proceed with vigour, managers should not, as a general rule, expect too much too soon. Changing attitudes and developing the requisite auditing capability will take time. Although the time frame will vary from ministry to ministry, an average of three to five years is not an unreasonable estimate for the typical ministry to implement fully the expanded role.

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